

Standard Industries Ltd.

1224 Lawrence Ave. West
Toronto, Ontario M6A 1E4



AR21

Speeches

**FINANCIAL REPORT
3 MONTHS TO
JUNE 30, 1977
AND
SHAREHOLDER
MEETINGS
JUNE 15, 1977**



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VALUATION DAY VALUE

For the purpose of calculating income tax on capital gains, the value of the company's shares as established December 22, 1971 is \$3.83⅓ per share.

Review of Operations

Three Months to

June 30, 1977



Income before extraordinary item for the first quarter at 46¢ per share (1,460,000) was 21% higher than last year's 38¢ (\$1,209,000). Sales were \$25,859,000, 14% higher than \$22,668,000 last year.

Greater quantities sold account for more than half of the increase in sales, including pressure pipe newly introduced to the market this year. Profit margins generally are being maintained, with an extra boost from the use of slag cement of our own manufacture — this product was not introduced until October of 1976.

Although first quarter results have been better than we had expected, it is too soon to project any comparable improvement for the rest of the year in the light of the current hesitant economic recovery.

There are no positive developments to report in the field of expansion and diversification.

The gain of \$648,000 on disposal of properties resulted from the sale of a parcel of surplus land adjoining our Toronto concrete pipe plant.

The board of directors on June 15 appointed Mr. Hugh F. Grightmire, formerly President, to the office of Chairman of the Board and Chief Executive Officer. Mr. T. A. Wilcox, formerly Executive Vice-President, was elected President. These appointments will ensure continuity in the direction and management of your company.

On behalf of the directors,

HUGH F. GRIGHTMIRE

Chairman and Chief Executive Officer

Toronto, Ontario

July 28, 1977

Consolidated Income

Three months ended

June 30, 1977

(unaudited and subject to
year-end adjustments)

REVENUE

Sales and contract revenue

EXPENSE

Cost of sales and operating expenses

Administration and selling

Depreciation and depletion

Interest on long-term debt

Other interest (net of interest earned)

Income taxes

INCOME BEFORE THE UNDERNOTED ITEMS ...

Equity in net income of associated companies

INCOME BEFORE EXTRAORDINARY ITEM

Gain on disposal of properties (net of income tax)

NET INCOME



	In Thousands of Dollars	
	1977	1976
.....	<u>\$25,859</u>	<u>\$22,668</u>
.....	19,545	17,106
.....	1,779	1,553
.....	1,859	1,600
.....	261	294
.....	17	(12)
	<u>23,461</u>	<u>20,541</u>
.....	2,398	2,127
.....	1,025	990
	<u>1,373</u>	<u>1,137</u>
.....	87	72
.....	1,460	1,209
Per share	\$0.46	\$0.38
ereon \$66,000)	648	—
Per share	\$0.21	—
.....	<u>\$ 2,108</u>	<u>\$ 1,209</u>
Per share	\$0.67	\$0.38

Consolidated Changes in Financial Position

Three months ended June 30, 1977

(unaudited and subject to
year-end adjustments)

WORKING CAPITAL DERIVED FROM:

Operations:

Income before extraordinary item
Add (Deduct) items not involving working capital
Depreciation and depletion
Excess of equity in earnings of associated companies
received

Reduction in mortgages receivable

Gain on disposal of properties

WORKING CAPITAL APPLIED TO:

Additions to property, plant and equipment, net
Dividends
(1977 – \$0.1625 per share*; 1976 – \$0.15 per share)
Reduction in long-term debt
Increase in mortgages receivable

INCREASE (DECREASE) IN WORKING CAPITAL
WORKING CAPITAL, APRIL 1

WORKING CAPITAL, JUNE 30

*The per share amounts refer to "A" shares. Dividend (undistributed surplus) amounted to \$0.1275 per share (out of 1971 capital surplus on hand) and \$0.15 per share is being withheld and will be paid to the shareholders when Income Tax changes become law.



	In Thousands of Dollars	
	1977	1976
.....	\$ 1,460	\$ 1,209
.....	1,859	1,600
panies over dividends		
.....	(87)	(32)
	<u>3,232</u>	<u>2,777</u>
.....	51	22
.....	648	—
	<u>3,931</u>	<u>2,799</u>
.....	1,329	2,677
.....	512	471
share*)		
.....	455	489
.....	535	—
	<u>2,831</u>	<u>3,637</u>
.....	1,100	(838)
.....	6,463	7,111
	<u>7,563</u>	<u>6,273</u>

ds declared on "B" shares (out of tax-paid
e in 1976. In 1977, dividends declared on "B"
t to \$0.1625 per share, of which 15% (or \$0.024375
B" shareholders when the proposed 1977 Federal

Shareholder Meetings

JUNE 15, 1977

The Holders of Class A shares met and confirmed a special resolution enabling the company to declare dividends on Class B shares out of Capital Surplus on Hand, conditionally on the Federal Government enacting legislation permitting such dividends as proposed in the Federal Budget announcement of March 31, 1977.

The Holders of Class B shares met and confirmed the same special resolution as had been considered and confirmed by the Class A shareholders.

Annual General Meeting

Thirty-five shareholders attended the meeting and 2,885,561 shares (91.7% of issued shares) were represented in person or by proxy. Mr. Hugh F. Grightmire, president of the company, was chairman of the meeting. A representative of the auditors, Thorne Riddell & Co., Chartered Accountants, was in attendance.

The financial statements and the directors' report to the shareholders for the year to March 31, 1977 were received and considered.

Messrs. S. C. Cooper, Hugh F. Grightmire, J. B. Hanly, J. D. Jarrell, P. Jongeneel, D. G. Lawson, T. H. Stevenson and T. A. Wilcox



were elected directors of the company for the ensuing year.

Thorne Riddell & Co., Chartered Accountants, were appointed auditors of the company for the ensuing year, and the Board was authorized to fix their remuneration.

In the course of the meeting, Mr. Grightmire addressed the shareholders and responded to questions. His address follows, with an outline of questions and answers of general interest.

Executive Appointments

After the shareholders' meeting the directors met and elected or appointed the following officers:

Hugh F. Grightmire – Chairman and Chief Executive Officer

T. A. Wilcox – President

T. D. Jones – Vice-President & Secretary-Treasurer

A. H. Baxter – Vice-President

E. F. Ford – Vice-President

M. E. McRae – Vice-President

C. C. Moyer – Vice-President

R. F. Titus – Vice-President

G. H. Hawckett – Comptroller

E. J. Hadden – Assistant Secretary-Treasurer

Address by
MR. HUGH F. GRIGHTMIRE
PRESIDENT OF THE COMPANY
AT THE ANNUAL MEETING
OF SHAREHOLDERS
JUNE 15, 1977



Earnings

Shareholders have had our annual report in their hands for some time, and you will already know that our earnings were down almost 9% from the previous year – \$1.40 per share compared with \$1.53 the year before.

The Anti-Inflation Programme

Our results for the year are covered quite fully in the annual report and I have no more to add, except in one area – the Anti-Inflation Programme and its counterpart, the tendency of governments at all levels to increased meddling with the economy. This is a favourite subject of businessmen today, and especially of myself. Any one who drove his car with one foot on the gas pedal and the other on the brake would expect trouble before long. This is just what the businessman faces, when the AIB sits beside him and keeps jabbing at the brakes, and three other passengers in the back seat – the federal, provincial and municipal governments – keep leaning over and trying to get at the wheel! None of them with any real concern whether or not he gets to his destination.

The Anti-Inflation Programme typifies, and in fact enshrines, the attitude seemingly common to all levels of government and all political parties, that enterprise is bad and should not be allowed its reward, and that the state can do all things, including creating jobs, better than the individual, who should sit passively waiting for the bureaucrat's bounties.

We have fully complied with all requirements of the programme, and have eliminated all so-called "excess revenue", and that is why our statement reads the way it does. But its effects



on our results have been uniformly bad. The cost of outside purchases of goods and services, payrolls and taxes have all gone up faster than our selling prices have been allowed to increase. Dividends have declined slightly in relation to sales revenues (2.4% from 2.5%). A big loser in all this has been the amount of our sales revenues available for reinvestment and growth in the business, which dropped to 10.8% of sales from 13.5% in the previous year, and this is in the face of the government saying to industry – “reinvest”. Worst of all has been the insidious effect on the attitudes of our staff; almost without realizing it, the requirement of avoiding excess revenue taints the normal objectives of promoting sales and increasing productivity, no matter how hard we all fight against it. I repeat the comment I made at this meeting a year ago – I oppose the programme. I now urge that it be swept away entirely at the earliest possible date. We do not need these controls. The programme can be ended.

Development Progress

Since 1974 our development strategy has been directed towards long term growth with less emphasis than in 1971 to 1974 on immediate returns on the sums invested. In the past year, our slag cement plant at Stoney Creek went into operation and is already yielding a good return. We are at present adding a new grinding unit which will double the plant's capacity in time for the 1978 operating season. We have bought a new \$1.5 million grinding mill, which is now being made and will be delivered in September.

The pressure pipe plant at Stouffville was also completed and went into operation last

October. This is the largest single investment your company has undertaken in recent years; the only comparable investment was the Dixie Rd. concrete pipe plant in 1968. It is operating very effectively and we have enough business lined up so that we can count on at least a modest return on our investment this year, and steady improvement for the future.

Our quarry developments at Point Anne and Brechin need a longer perspective. The markets needed for a full return on these projects have not been available in the past year, and we must wait for a resurgence of economic activity in the central area of the province before these projects can really justify themselves.

Future Development

We have now reached a point of balance. The big projects we have been working on for the last three years are complete and starting to bear fruit.

In spite of intense research work done by our development department, we have been unable to find any desirable outlets for expansion or diversification within Ontario, which could live through the delays and red tape of the Foreign Investment Review Agency to which we are subject.

Our planned capital expenditures of \$6.5 million for the coming year are renewals and replacements, except for our investment in greater slag cement capacity.

The climate for investment in Canada seems less favourable now than it has been for many years.

We are ready for new initiatives.

Investment in the United States

In my opinion, these must take the form of investment south of the border. We are not Johnny-come-lately's in this; we have been actively looking for three years. There is a large market there, much of it quite close at hand, just moving into a recovery phase after three years of deep depression in the construction industry. They have the same problems of government harassment that we know so well, and perhaps worse problems of vulnerability to lawsuits for a wide variety of causes. But investment is welcomed there and enterprise is fostered. There are big markets there, closer to us than anywhere else in Canada except Quebec. Our potential for successful investment there is greater than anywhere in Canada.

In the last year we have put a lot of effort into finding a way into the U.S. market, and it is not easy. We have looked at at least 20 companies closely in the past year. We have not been happy with the returns we have seen. We have advertised in trade publications, we have approached U.S. trade associations and, where permitted, have circularized their memberships. We have contacted the industrial development agencies of many states. We have followed up personal contacts through our own members of international trade associations. We have built up our own information files on publicly and privately owned corporations which might be interesting to us.

As a result of this research programme, we have reviewed many files and looked at many potential acquisitions, but have not yet found the right one. When we find it, and we will, it

will be a medium sized, well-established business, in one or more of our existing lines of operation, and with a record of profitable activity. We have no interest in rescue attempts or turnaround situations, or in unfamiliar lines of business in which we have no expertise. It must be a sure fire opener to expansion in the U.S. I will be presenting to the Board this morning two potential companies in our line of business which are situated in the northern and central U.S.

Prospects for 1977/78

We are now more than two-thirds the way into the first quarter of the new operating season. Last year's first quarter results of 38¢ per share were the highest ever obtained for the April-June period. So far this year, our internal reports for April and May show results a little better than last year. June sales so far have been brisk, so I would think June results would not be far out of line from last year either.

I am much more hesitant, though, about estimating for the entire year ahead. Housing construction is not going to continue at last year's high level. General economic recovery is still quite hesitant. A smaller proportion of our business is being done in the winter months each year — indicating that contractors will only operate in winter under pressure, either of resources or completion dates. And we are operating this year under new AIB rules. Their exact effect is not yet clear to us, but certainly they will prevent any dramatic increase in earnings relative to sales volume if they continue to apply for the entire year. Putting all this together, I would say we can look to a moderate increase in earnings per

share for the current year provided that general economic recovery does not collapse.

Announcement of Executive Changes

Your directors have authorized me to announce, and I do so with great pleasure, that it is their intention to elect Mr. T. A. Wilcox President of your company. I shall be assuming the office of Chairman of the Board with the title of Chief Executive Officer. Mr. Wilcox joined Standard Industries Ltd. in 1958 and has since obtained wide experience and knowledge of the company's operations. He was appointed a vice-president in 1971, executive vice-president in May 1973, and was elected a director of the company in October 1976. He is well qualified to assume the office of President of your company.

QUESTIONS BY
SHAREHOLDERS AT THE
ANNUAL GENERAL MEETING
JUNE 15, 1977

Q: Will you comment a little on the effects of the unusually cold winter?

A: It didn't really hurt us; it was severe but there was no business anyway. An examination of our winter activity for the past six years shows a downward trend in winter construction activity in Ontario, contrary to popular thinking.

Q: What percentage of our business is done with Canada Cement Lafarge Ltd. and Pitts Engineering Construction Limited?

A: We buy cement from Canada Cement Lafarge Ltd. on a competitive basis, and this year we purchased 82% of our cement requirements from them. This year sales to Pitts totalled \$1,832,000, or 2.2% of sales, compared with last year's \$239,000, or .3% of sales.

Q: Is there any important litigation pending against the company?

A: No.

Q: Is the amount of advertising expense up or down from last year?

A: Our advertising and sales promotion, which includes brochures on our new



pressure pipe plant, was \$54,000 compared with \$31,000 last year.

Q: Are we spending enough on our Jiffy consumer products?

A: This month the Jiffy plant was operating at full capacity, and had as many customers as it could handle.

Q: Are all the nominated directors resident Canadians?

A: Yes.

Q: If Standard does become heavily involved in the U.S., may I suggest that one of the directors be a U.S. citizen?

A: This sounds reasonable, and we shall consider it.

Q: What are the directors' fees?

A: The same as last year, which is \$1,500 per year plus \$150 a meeting for each outside director.

Q: How much was the auditing fee?

A: \$64,000 this year and \$57,000 last year.

Q: Were there any political contributions?

A: About \$5,000 in total.

Q: Was it divided between the parties?

A: We do not singularly contribute to one party; our contributions are divided, but perhaps not evenly.

Q: Were any kickbacks discovered?

A: No, and I certify that to the best of my knowledge as Chief Executive Officer there was nothing unreported or improper.

Q: Are the company's executives questioned regarding possible conflicts of interest?

A: We do not specifically ask, but we do not know of any.

Q: May we suggest that it be done once a year?

A: This was suggested previously by a director and it was considered, but we felt it might be construed as an insult by our officers. However, since it has now been brought up by a shareholder also, we might now consider doing it.



DIVIDENDS, AUGUST 5, 1977

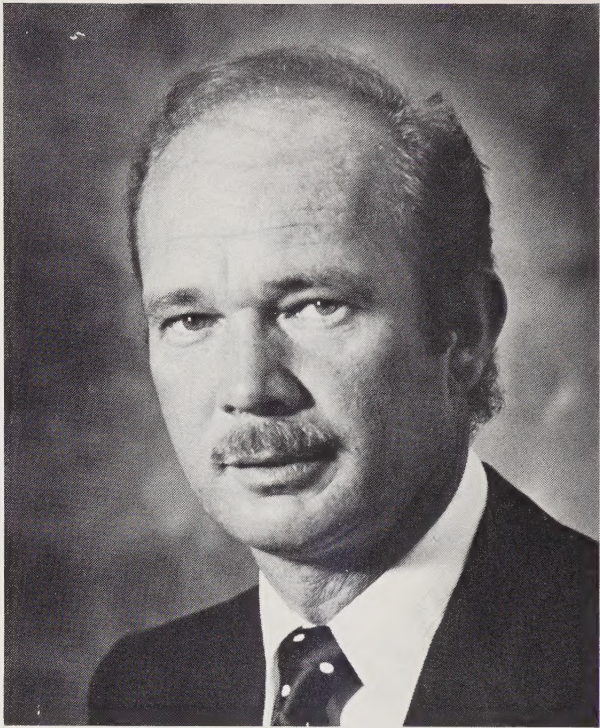
Your cheque is enclosed in respect of the following quarterly dividends declared June 15 and payable to shareholders of record July 21, 1977:

Class A shares — 16.25¢ per share

**Class B shares — 13.8125¢ per share
(tax-deferred)**

An additional amount of 2.4375¢ per share (tax-deferred) will be payable to holders of Class B shares of record July 21, 1977 within 30 days of enactment of the amendments to the Federal Income Tax Act, proposed in the March 31, 1977 budget resolutions, so as to permit payment of dividends out of Capital Surplus on Hand. Such tax-deferred dividends would not be subject to a 15% tax retention, as were the tax-deferred dividends paid hitherto to Class B shareholders out of Tax-Paid Undistributed Surplus on Hand.

INTRODUCING OUR MANAGEMENT



William M. Ellicott

William M. Ellicott is General Manager of Jiffy Dry-Mix Concrete Products Ltd., Standard's wholly-owned subsidiary manufacturing packaged dry-mixed concrete products in Toronto.

Bill joined Consolidated Sand & Gravel Company, Standard's aggregates division, in 1960 and later was appointed Sales Representative for the Pickering Plant. In 1963 he became Assistant Manager of Standard's marine operation, National Sand and Material Company, Limited.

He was appointed to his present position with Jiffy following Standard's acquisition of that company in January, 1973.